THE NATIONAL CITY BANK OF NEW YORK
1920

Economic Conditions
Governmental Finance
United States Securities

NEW YORK, SEPTEMBER, 1920.

General Business Conditions.

THE general business situation in our opinion has been developing in a satisfactory manner during the past month, although this does not mean that present conditions are all that could be desired. It means that the general trend is toward normal and permanent conditions, and that existing disorders are no greater than might be expected in accomplishing the adjustments that are necessary. The crops are fine, which is a good foundation for domestic business and for international relations. The railroad situation has improved decidedly during the past month, and although far from satisfactory gives promise of gradual betterment. There is a better feeling in banking circles as to the credit situation, although money will remain tight. The recession of industrial activity which is under way is not severe enough to be alarming, but is incidental to finding a lower level of prices. The abundant crops have accomplished a general price reduction in foodstuffs and the raw materials of clothing. With the exception of sugar, which has declined about 10 cents per pound in the last two months, the important food staples are either as low as or lower than a year ago. Meat products are lower, flour and vegetables about the same, fruits lower, coffee less than one-half the price of a year ago. Raw cotton has declined about 10 cents per pound in the last two months, wool even more, hides and leather more, raw silk about 70 per cent in six months. The markets for textile goods have been paralyzed by these declines in raw materials, but declines have taken place in many important staples.

Over the industrial field the general trend of prices is downward, and the pressure is slackening, with an increase of unemployment. An abundance of labor was available for the harvest, and it is probable that some of the labor which has been attracted from the farms during the last five years will now return and remain. The period of acute scarcity both for goods and for labor appears to be over and a competitive situation is developing. It is well that there shall be general recognition of the fact that the upward movement has run its course and that further wage and price advances are untimely.

Prolonged Depression Improbable.

It does not necessarily follow, however, that the very pessimistic prognostications are justified. It was a mistake when the war ended to think that an immediate readjustment upon a lower level of values would be effected; there was a great shortage of goods and a backed up demand for labor which promptly absorbed all that was released from the armies and war industries. Hence the quick revival of business and the rise of wages and prices in 1919. That situation was as abnormal and as temporary in character as the industrial situation of the war time. Numerous signs of relaxation are now appearing, but it is likely to prove as great a mistake now as in the early months of 1919 to think that a period of general and prolonged depression is at hand. There still is a great amount of work in arrears, and an imperative need for construction work and for the production of goods to satisfy the wants of our people as well as of the rest of the world.

As in the case of house-building, this work may be checked by the rising costs but that only means that costs must come down, with the assurance that as they decline activity will revive.

There is a slackening in the demand for our products abroad and an increase in our own importations, both of which changes have an influence for lower prices in our markets.

This downward movement is naturally resisted in many quarters, as various interests struggle to entrench themselves, but in the long run all will do better to show a spirit of cooperation in finding the new level to which the economic forces are tending. It must be remembered that the highest prosperity for every interest is to be found in a state of balanced industry, in which everybody is employed and buying freely of the products of others. Idleness anywhere in the industrial circle affects everybody in that circle unfavorably, and full employment everywhere means that products must be exchangeable on the normal, accustomed, basis. If one class of products falls, the producers of that group will be able to buy less of the products of others unless the latter come down also. The resolution of this or that group as to what they will have for their services amount to little when the buying power of the other groups decline. A wage-earner who

is working only half the time at the old rate may assure himself for a while that his wages have not been reduced, but the truth will eventually find its way home.

The Industrial Situation.

In the textiles the price situation remains unsettled, with business between producers and middlemen to a great extent in a state of suspension, particularly in woolen goods. The woolen mills are generally idle, and but little raw wool is changing hands. Recent government auctions in England indicate that the better grades of wool are fairly well maintained in price, but the markets everywhere are overloaded with the lower grades. In woolen goods as in meats and other things the buying public is wanting the best.

The cotton goods mills have been generally shut down for vacations or running on part time during the past month, but there is a hopeful feeling about reaching a basis upon which production may go on. The trade has been buying from hand to mouth and the lowest prices have been made for goods outside of producers' hands. The mill companies have not proposed any reduction of wage rates, and aside from the decline which has taken place in the raw material say that costs are higher than ever. They are expecting to accept a reduction of profits, but believe that middlemen's stocks are not large and that there will be a revival of business in the near future. We incline to the opinion that the goods will be wanted, and that a compromise of opinions upon prices will be reached. The decline in the price of raw cotton, which is arousing a general protest in the Southern States, is due in part to the improved outlook for the growing crop but even more to the dull condition of the cotton goods market all over the world. No doubt the world needs all the cotton that America can grow, but unfortunately the buying power of a large part of the world's population is very low. In the case of both wool and cotton the only remedy for sellers is in keeping their product until better conditions develop in the trade.

The underwear trade is in a quandary about prices upon goods for next spring delivery. How great has been the rise in cotton goods during the past year is illustrated by the fact that although cotton yarns have declined about 33 1/3 per cent in recent weeks manufacturers say that they are still about 100 per cent above the prices of a year ago, and with the wage advances of the past year they assert that they cannot make knit goods without prices considerably higher than those of the last year.

The shoe industry is suffering from the general inclination of buyers to hold off for lower prices. Hides and leather have had a decline which has put prices down to about what they were in 1916. Dealers are afraid to order normal stocks until satisfied that they have been given the benefit of these reductions, but here also the manufacturer puts in his claim that the raw material is a small factor in his costs, and that labor, the chief item, is higher than a year ago.

General trade reports are good, particularly from the interior, where the good crops have inspired confidence that another year of good business is assured. Exports of wheat since July 1st have been running far ahead of the corresponding weeks of last year, indicating that the foreign demand will readily take this country's surplus. Foreign wheat yields are turning out not quite so good as predicted a few weeks ago.

The Money Market.

The money market apparently has undergone but little change in the last two months. Interest rates have been about the same and the policy of restriction to essential uses has been consistently pursued. The condition of the Federal Reserve banks has shown but little change. On June 4, the total earning assets of the twelve banks was $3,276,626,000; on July 2, $3,271,579,000; on July 30, $3,162,315,000, and on August 27, $3,289,672,000. The member banks reporting to the Federal Reserve Board showed a total of all loans and investments, including re-discounts of $17,081,737,000 on June 4, $16,928,893,000 on July 3, $16,883,715,000 on July 30 and $16,882,540,000 on August 20. Evidently the liquidation which bankers hoped for during the summer months has not been accomplished, and the crop-moving season is now fairly on.

The old-crop wheat has been pretty well cleared out of the southwest and northwest, but a good amount of corn remains in farmers' hands in the middle west. Such bank liquidation as has been accomplished has been offset by new demands, and it remains to be seen whether the crop movement can be effected with the amount of credit already so employed.

A considerable degree of liquidation has taken place in merchandise stocks in the last three months, and the fact that loans are practically unaffected indicates not only that the volume of business in the aggregate is still heavy but that the banks are carrying an unusual amount of loans which represent capital investments. The pressure for greater facilities in all lines of business has resulted in the use of earnings and credit to finance expansion, and it will take time to free the banks of these commitments.

The feeling in banking circles is more settled and confident because of a belief that the spiral movement of wages and prices has been checked, and that this being true the situation is in the way of working itself out. When the people of this country really set themselves to the task of paying their debts they are certain to accomplish something, and nothing will help them to that resolution like falling prices.

Nevertheless, it is probable that the present deadlock over prices will be adjusted early enough to permit a large volume of fall business

to be done, and unless the new price level is lower than now seems likely this trade will require some expansion of bank credit. The bankers expect to supply the credit that is necessary to enable business to be done, but if loans go up sound banking policy will require that interest rates go up. It is not clear why all of the reserve banks have not put the 7 per cent rate into effect.

The French and Argentine gold will help to sustain the reserve percentage, but it is more important to keep down loans than it is to keep up the reserves.

Prices, Wages, and The Economic Law.

At this time, when the industries and exchanges of the whole world are out of balance, and there is great need for patience and cooperation among all classes, ill-feeling is constantly stimulated by hasty and uninformed comment. People write and talk loosely, often without knowledge of the facts they discuss and still more often without intelligent comprehension of the economic laws which are involved. The natural economic law is always working to restore normal conditions, but time is required for its operations, and meanwhile the impatient people are wanting to adopt arbitrary and punitive measures, which usually have all sorts of results not anticipated and which interfere with the natural processes of recovery.

One of the common fallacies is the theory that sellers can make any prices they please, and are wholly responsible for prices, buyers occupying simply a passive position. We have an example of this theory in the presumption that the increase of freight charges will be multiplied several times over as passed on to the consumers of products. Manufacturing and trading would be amazingly easy if business men could have things so much their own way, but experience has shown that under ordinary conditions costs and expenses must be watched closely to enable a business to keep a margin on the right side. In time of scarcity, goods will bring high prices, in conformity with the law of supply and demand and regardless of costs. Prices depend primarily upon the relation between supply and demand. Cost is a factor, as fixing a limit below which they will not be long maintained, because the supply will fall off. Hundreds of producers sell their goods in common markets at substantially the same prices, although their costs may vary much more than the freight charges which enter into them. Freight charges are a common influence and undoubtedly a factor in prices, but prices are the result of all market conditions while freight charges are a minor factor. The efficiency of railway service is a much more important element in prices than the freight charges.

Responsibility of Buyers.

The responsibility of buyers for prices has appeared clearly in recent weeks in the cost of coal. The reserves of coal have not been made good since the strike of last fall, and large consumers, operating from hand to mouth or forced to curtail, have been eager to accumulate stocks. The bulk of the coal has been sold under long-term contracts and at moderate prices, but the effect of short supplies has been exaggerated by consumers who duplicate orders and send representatives into the coal fields to buy up the free supplies. They have created a competitive situation by trying to get coal away from each other. Coal has a greater value to some consumers than to others, and when there is not enough for all the free supplies tend to go to the buyers who will pay the most for it.

Prices inevitably go up under such conditions, and there is more practical sense in recognizing the tendency as due to economic law than in denouncing the sellers as profiteers. It is better to recognize that the economic law in the long run provides the most effective protection to consumers than to try to set up a vague standard which cannot be interpreted or applied with any degree of certainty, and therefore affords no protection at all. There is no better regulation for prices than competitive public bidding in an open unmanipulated market where the full supply is being freely sold.

The real difficulty is not that coal producers are putting up prices, but that the aggregate distribution of coal is insufficient to supply all demands. Somebody's supply must be curtailed, and the consumers determine among themselves by competitive bidding whose it shall be. It is not a satisfactory situation, but it cannot be shown that this is not as good a method of distribution under the circumstances as any other.

The Sugar Situation.

There has been as much talk about profiteering in sugar as upon any other feature of the high prices. Writers have called attention to the fact that the total imports of sugar into the United States during the past year were greater than ever before, as proof that no shortage of sugar existed and that the market was manipulated, but it proves nothing of the kind. It simply indicates that the price was high enough to bring sugar here from all parts of the world; we outbid other countries for it and got it, and probably would not have obtained it at a lower price. The world's crop was short, but we have taken more than our share, and naturally had to pay high for it. Other peoples who have always used less sugar per head than ourselves have used still less this year in order that we might have more.

The sugar situation illustrates very well how speculation which goes beyond proper provision for the future defeats itself. If the price had

been raised early in the year just enough to equalize consumption and supply until the new crop was available, the effect would have been advantageous alike to all parties concerned, but the idea became prevalent that sugar might become unobtainable except at prohibitive prices. Not to speak of people who buy for the purpose of holding a commodity off the market, but only of those who buy in anticipation of their own needs, the prospect of scarcity and higher prices always stimulates the demand. Householders and large consumers bought more freely than usual, and doubtless dealers in many instances anticipated the wants of their trade. It is the business of a dealer to take care of his customers. His trade in other goods depends to some extent on his ability to supply sugar. Besides this class of buying there may have been outside speculation, but it was based upon the belief that sugar was going to be scarce and higher.

There was competition for sugar, a skurrying here and there to find it, with price a secondary consideration. Of course the price went up, not because of unfair or improper action on the part of sellers but mainly because buyers were bound to have what sugar they wanted for themselves whether anybody else had sugar or not.

The apprehensions as to scarcity did not take into proper account the willingness of other countries to go without sugar if they could sell it to the United States at a high price; and so it turned out that sugar came to us from all parts of the world in such quantities that it soon appeared probable that this market had more than it could use. Then the reserve supplies began to come on the market, and the price declined about 10 cents per pound. The hoarders have lost money. The economic law has inflicted as real a penalty as though every offender of low and high degree had been lined up in court and fined according to the number of pounds of sugar he had withdrawn from the market. With regard to the broad application of the punishment, and the amount of the penalty inflicted upon the large offenders, the operations of the attorney-general's staff of assistants make a poor showing in comparison.

The Textile Industries.

The profits of the textile industries have been a subject of critical comment, much of it of the stereotyped kind, based upon the assumption that sellers are wholly responsible for prices, that prices should be based directly upon costs, which is never the case in any industry unless there is a guaranteed profit, and that high profits are necessarily a crime against the public. Conditions in textiles have been unusually favorable to profits, as the European mills were largely shut down and not only the home markets for goods but the markets of other countries looked to the American mills. In cotton goods they were also favored by the fact that foreign markets for raw cotton were largely cut off. Here was a situation in which unless the industry was under one control and the product was apportioned to consumers at a fixed price there was bound to be a rise of prices. There were not enough goods to meet the demand, and the competition of consumers made the prices. An individual producer cannot be expected under such conditions to sell below the market, and it is not an offense economically or morally, to take the price which the economic situation gives him. No one should be asked to make an ineffectual sacrifice—a sacrifice which does not accomplish the purpose in view, and for him to sell his product below the market would not effect the general price level; sold to dealers it probably would effect no saving to consumers.

High Prices Stimulating Production.

The compensation to the public for these high prices comes through another channel, by the greater development of the cotton goods industry, which directly follows. The correspondent of the New York Journal of Commerce, writing from Charlotte, North Carolina, one of the centers of the cotton industry, on April 3, 1920, and summing up the new projects announced in the South in the first three months of this year, said that they exceeded in cost and productive capacity all of the installations of 1919. The dispatch said in part:

> About $40,000,000 will be the amount required for investment to build, equip and provide the community necessities for the new cotton mills and the enlargement of established plants announced since January 1 throughout the cotton growing States. As stated by recent dispatches from this city, the Southern center of textile mill engineering and machinery representation, the activity in cotton mill building is unusually extensive and figures that have been prepared during the week are of exceeding interest in this connection.
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> The $40,000,000 mentioned will provide mills with a total of 490,000 spindles and 17,000 looms, the spinning machinery to represent $35,000,000 of that amount and the weaving equipment to require $5,000,000. The dollars, the spindles and the looms for the first three months of 1920 exceed the corresponding figures for all of 1919, the looms exceeding all of last year's looms by more than 6,000. North Carolina will have 420,000 spindles, 14,000 looms and $29,000,000 of the announcements.

The construction of these new mills is making a demand upon the labor market, first in the building material industry, then in the machinery-building industry and finally for a permanent supply of workers to operate the mills. At this time the construction work is limited only by the capacity of machinery works to turn out the weaving and spinning machinery, all of the makers being sold up far ahead. This expansion of the cotton goods industry will go on until the production of cotton goods catches up with the demand and profits are brought down to the normal rate. There is no other way of restoring the balance in the cotton goods industry than by the investment of more capital, and the high prices

and large profits are supplying the capital rapidly, whereas lower prices and smaller profits would spread the development over a longer time.

Closing of Mills.

The closing of textile mills and the action of some manufacturers in making sales under a guaranty to protect customers against a decline of prices have excited criticism, in some instances by government officials charged with the task of bringing down prices. The closing of mills is something to be deplored, but upon what theory can a manufacturer be criticised for declining to make goods which the public declines to buy? It is a well known fact that the orders for cloth given some months ago have been to a large extent cancelled because the buyers are afraid either that they cannot resell the goods or that prices will be lower, putting them at a disadvantage with competitors who may buy later. A want of confidence in this trade situation has developed and something like a dead-lock exists, buyers hesitating even to make offers, from fear that they may be too high. They have preferred to wait for a definite trend. The price level is very high as compared with the past, and nobody wants to own goods beyond supplies for immediate trade.

Under these conditions merchants and clothing manufacturers exercise their discretion by withholding orders; labor organizations exercise their discretion by saying that they will not entertain any suggestion to reduce wages, and cloth manufacturers exercise their discretion in declining to make up goods without orders. All of these parties are within their rights. They are in disagreement as to the future of the market, and nobody—certainly no government official—is wise enough to tell them what the course of the market is going to be, or able to insure them against loss in following his advice.

Guaranty of Prices.

Meanwhile, in some instances buyers and manufacturers have come together upon agreements under which the buyers place their orders at given prices with the proviso that if market prices decline certain reductions shall be granted. The buyers are relieved in part or in whole of the risk of price declines and the manufacturer is able to start his machinery. There seems to be no reason why business men should not be permitted to adjust their differences in this manner if they can agree to do so.

The objection is made that manufacturers, having guaranteed prices, will be anxious to maintain them—an exaggeration again of the power of sellers over prices. The desire of manufacturers to maintain high prices is not so influential upon prices as the fact that the mills are running. High prices are more likely to result from stopping production than from any action among manufacturers with production continuing.

It must be remembered that the mill proprietor is always under strong pressure to continue production if he can do so with any assurance against loss, for he suffers a heavy loss every day his machinery is idle. Not only is the large investment earning nothing, but important overhead expenses must go on and the dispersion of a force of experienced employes is likely to be a serious matter. The profits of mill operations depend largely upon a full and constant force.

The situation is plainly a difficult one, but has anybody expected that the task of coming down from these high wage and price levels would be without difficulty? It is bad enough at best but made worse by refusal to take the obvious explanation and by encouraging suspicion and antagonism.

Past Profits.

There are critics who say that as the mills have made large profits in past years, they should now go on with manufacturing, taking the risk of declining markets. That idea is based on the assumption that past profits are on hand in cash. In fact, the profits of the past may not be available to meet losses in the future. If they have been paid out in dividends or used in the construction of new works, or are tied up in the higher inventories and larger volume of credits which the present situation requires, they cannot be used to pay operating expenses and carry goods. And this describes very generally the real situation.

The American Woolen Company is the largest producer of woolen goods, and its president was recently indicted upon the charge of profiteering, but this company has found it necessary this year to sell $20,000,000 of new stock to provide itself with needed working capital. It may be added that this stock was offered to the present shareholders at par, but it is understood that only a small portion was disposed of in this manner, the underwriters getting the major portion. The shares are now selling in the open market at about 80.

The state of bank loans shows that notwithstanding the profits that have been made the business community is borrowing far more heavily than at any time in the past. All financial authorities are agreed that the banks have gone about to the limit of prudence in the creation of credit. It would be unsafe and in opposition to the general interest for the banks to go on increasing their loans in order that manufacturers may produce goods which cannot be sold at prevailing prices, or which they will have to sell at a loss. The banks are custodians of the common credit supply, and will not knowingly lend it for the production of goods at a loss. It is not in the

general interest that credit shall be extended for this purpose, or that any capital which has been accumulated shall be wasted.

It would be wasted if used to support a price level so unnaturally high that the demand for goods was curtailed. The market must find its normal level. We do not say where that level is, nobody knows; the public determines that by the freedom with which it takes the goods. When it will take all the goods that can be produced at a high level of prices it is idle to argue for lower prices, but when the full production cannot be sold, and machinery and workers are idle it is time to consider the advisability of lowering costs and prices, particularly if that is the general trend of commodities.

The Economic Value of Speculation.

The public naturally objects to paying high prices. It usually charges them to greed and deliberate design, but the fundamental causes are deeper, and usually a price rise is not only due to natural conditions, but serves the public interests. If there is an actual shortage, it is important that the supply be conserved by economy in consumption and by shifting the demand to substitutes, and the most effective influence for accomplishing this is a rising price. A person who speculates for a rise in necessaries is usually regarded as a public enemy, but a speculator profits only by anticipating conditions, and his operations tend on the whole to equalize conditions. The operations of a speculator who foresees a shortage and pushes up the price far in advance of the exhaustion of the supply are serviceable, because they promote economy in use early enough to be effective in equalizing consumption and stabilizing the price over the entire period for which the supply must serve. The idea that a low price can be maintained on a short supply, and everybody provided for as usual, is of course a fallacy. The hardship is not imposed by the speculator; it results from the short supply, and would be felt eventually and with more extreme fluctuations of price if no one foresaw it or attempted to provide for it. If the speculator puts the price too high and curtails consumption too much he will lose money by it. His operations will be most successful for himself if they regulate consumption so nicely that the available supply is spread uniformly over the entire period for which it must serve, at a uniform price, and without any supply left over, and that arrangement is advantageous to the consuming public.

Stabilizing Prices.

No speculator ever gains by holding goods back from the market unless he finally sells them, and the longer he holds them back, at prices which curtail consumption and stimulate production the more likely he is to lose money.

There is talk that the farmers' organizations will undertake to manage marketing so as to accomplish a gradual distribution of crops throughout the year at a uniform price, but when the uncertainties that attend upon production are taken into account it will be seen that there is bound to be a large element of speculation in providing the needed supply from year to year. The crop prospects change from week to week throughout the growing season, and prices fluctuate with them. It may well be asked whether any scheme to fully stabilize prices is not chimerical. It would have to be backed by a greater amount of ready capital than can likely be placed at the command of any board of managers. It may be doubted whether any better arrangement for promoting stability in the markets can be provided than a free, open market, which affords a concensus of world opinion from day to day.

Effect of Rising Prices Upon Production.

Besides the effect of a rising price in conserving an existing supply there is the effect in stimulating an increased production. It not only offers an incentive, but provides the means, the capital, necessary for enlarged production. Regulations may control the distribution of an existing supply, but if the situation is one of scarcity the existing supply obviously is insufficient; permanent relief requires increased production and probably requires an increased investment of capital, which is not encouraged by official price-fixing. The giving of price-fixing authority to public officials tends to influence investments into other channels, and thus make a scarcity permanent. The paper industry is suffering now from the price-fixing which has been going on for several years, and there will be no relief until production is increased by heavy investments. The present controversy over rents has the effect of deterring many persons from house-building. People prefer to place their investments where they will not be subject to controversy or to the judgment of anybody whom the necessities of politics may place in public office.

High Interest Rates.

The idea that sellers alone make prices is uppermost again in the complaint about interest rates, and particularly the criticisms of high rates for call money in New York. As we have heretofore explained, the call money market is supplied with funds, owned by individuals, corporations and banks, which are temporarily available but which the owners do not wish to tie up for a definite time. In the aggregate there is always a large amount of money waiting for some purpose, but from day to day unemployed; this is the call money fund, but naturally it is shifting and fluctuating continually. It comes from all parts of the country and important sums from the Canadian centers. The loans are secured by collateral and made through brokers, upon the express condi-

tion that they are payable on demand. There are no other relations between borrowers and lenders. The lenders wish to keep their funds absolutely at their command, and the borrowers understand the terms, but depend upon their ability to obtain accommodations elsewhere by raising the rate if necessary. It is a theory in the call market that money can always be had at some rate. Sometimes call money is obtained at less than the prevailing rate for time money and that has been the case during most of the past month; sometimes it commands more, depending upon the state of supply and demand.

Withdrawal of Funds.

The lenders at call withdraw their funds as they want them for other uses, and when the withdrawals exceed the new offerings the interest rate naturally goes up, which is the method by which more funds are attracted. If the pinch is severe the money committee of the Stock Exchange calls upon the local banks for a fund to relieve the situation, but these loans are always paid off the next day.

These are the conditions under which call rates have occasionally reached figures that are pronounced extortionate and oppressive, and said to be destructive of property values.

Some of the leading banks of New York have been lending no money at the stock exchange except as called upon by the money committee to supply a quota to the fund for stabilizing the situation. Banks which do not lend in the call market at all can hardly be criticised for the high rates, and yet they contribute to them even more than the banks which lend at the high rates, for lending at any rate gives some relief to the situation.

Borrowers Make Interest Rates.

The truth is that the borrowing public is responsible for the high rates for money, just as the buying public is responsible for the high prices for coal, sugar and cotton goods. The public must learn to respect the law of supply and demand and govern individual affairs accordingly. High interest rates like high prices signify that demand is out-running supply, and if the supply cannot be increased the demand must be curtailed. The volume of money and credit cannot be made to satisfy all possible demands by the public for purchasing power; the public must restrict its wants within an aggregate that is consistent with a sound state of credit, or if it fails to do so take the consequences. A high interest rate is the mildest effective means of holding demands in check.

Moreover, in the general need for greater production it should not be overlooked that the fundamental need is for more capital, and that this affords an economic justification for both higher profits and higher interest rates. These are the chief means by which new capital is created. There is as great a need at this time for more banking capital as for more of anything else, and no reason for limiting banking profits in favor of other profits, or in favor of credit expansion.

The real cause of the high prices has been the waste of capital and the attempt to make credit do instead of capital. There will be no correction of this situation except as capital is restored to normal relations with industry and credit. The protest against high prices and high interest rates is simply the instinctive but futile protest against the grim necessity of saving to make good the expenditures upon the war. Of course the cost falls upon consumers at last; but was anything ever saved except at the expense of consumption?

The Relation of Capital to Prices.

The public does not like to pay high prices, particularly when it believes that they yield large profits, and yet, as already indicated, profits afford the most certain means by which prices are reduced. The real social problem of the present time is how to bring home to the average man the fact that an abundant supply of all the things that he is wanting is dependent upon the accumulation of capital, not necessarily in his own hands, but in any hands that will use it effectively in production.

The fundamental reason for the high prices, and that increasing wages do not overtake rising prices, is that there is a scarcity of capital, or in other words a scarcity of the means of production and distribution. It is well understood that the limiting condition upon industry in this country today is the state of the railroads. They have not been kept up to the growth of the country. This means that thousands of men must work for years, building cars, locomotives and switch tracks to get the railroads into shape to handle the traffic that is offered. These men must be paid for this work, the money amounting to billions of dollars must be ready as they do their work, and must come from an available surplus, accumulated by somebody. So also billions of capital are wanted for the building of houses, and for other construction work, needed to provide for the comfort of the population. Of all the many proposals offered for improving the living conditions of the people, there is not one which does not require capital; they are all conditioned upon somebody having a surplus which can be obtained either by inducing him to give or invest, or by taxation. Not everybody recognizes that even taxation requires that somebody shall have acquired a surplus, but that is evidently the case.

Impairment of Natural Wealth.

With the growth of population and the impairment of supplies of natural wealth, it becomes more necessary that wealth in the form of productive equipment shall be increased.

There was a time when fuel in the form of timber was plentiful in nearly all sections of this country, when building materials were cheap for the same reason, when cattle were pastured on the public lands and all food products and clothing materials were cheap because land could be had for nothing. That time has gone by. Steel and cement must be manufactured to take the place of timber, costly machinery must be used on the farms to reduce the labor cost of production, large investments must be made to cheapen the cost of transportation, and on every hand we must strive to make good the loss of natural wealth by improved industrial processes, or the conditions of life for the millions will grow steadily harder as population increases. And this improvement of industrial processes is usually by means of costly equipment, requiring capital investments.

Every agency that contributes to production is in demand; labor is in great demand, and wage rates have risen in consequence; capital also is in demand and its wages have risen. Every kind of machinery that will assist in production is in demand, and it is only as these agencies of production are multiplied or made more productive that the supply of necessaries and comforts for the population can be increased.

Where Capital Supplies Are Falling Off.

The great numbers of people who own railroad bonds and stocks, and who constitute an important section of the investing public, are getting no more income from their holdings than they had before the war, but after paying their own increased living expenses and taxes they have less to invest in railroad improvements, and what they do invest will buy less than one-half as much in railroad equipment. Where are the new investors who will supply the rest of the capital needed for railroad rehabilitation?

At Cleveland recently it was found necessary to advance the wages of street car employes, and the operating company asked permission to raise fares not only to pay the increased wages but to raise the dividends on the investment from 6 to 7 per cent. A referendum was taken upon the dividend rate, and the public refused to allow the increase. It would consent to an increase of wages but not to an increase of dividends, doubtless because it did not see that the public had any interest in dividends.

The owners of houses have not as a rule been able to advance rents to an extent parallel to the increase in building costs. It is argued that since their houses were built before the rise, they are not entitled to such an advance. But maintenance expenses have increased, taxes have increased, their own living expenses have increased, and they have less of capital savings with which to build more houses than before. **Who is going to supply the new capital for house-building which they have supplied heretofore?**

The List of Profiteers.

There is a great outcry against the profiteers and lists have been published containing the names of corporations which have made large profits. These are usually producing corporations who sell their products on the public market at the going market prices, and who have little control over the prices finally paid by the public. Scarcity makes the price-level and nothing can cure the scarcity but the investment of new capital to increase production. The profits complained of represent the automatic workings of economic law by which new capital is accumulated to meet such needs and nominal profits must be twice as high as formerly in order to make a corresponding saving of real capital.

In many cases these profits have never reached the stockholders, being required as additional working capital to handle the business, and more capital has been raised from the public market. The shares of most of these companies may be bought at very moderate figures. The case of the American Woolen Company has been referred to elsewhere; the American Smelting & Refining Company is another corporation which has been listed among the profiteers, but at no time since the beginning of the war has it paid more than 6 per cent in dividends annually, while the present rate is 4 per cent, and its $100 shares are selling in the market at about $55.

King Upon the Services of Capital and Skilled Management.

Professor W. I. King, author of the "Wealth and Income of the People of the United States," in a recent article, entitled "Why Wages Are High or Low," refers to the common assumption that the income accruing to the owners of capital is lost to the wage-earners and general public. He discusses it as follows:

"One of the most common errors of students in this field is to assume that the share of the national income paid for the use of property is entirely lost to the wage-earners. As a matter of fact. this is far from being the case. Everyone knows that many skilled workers and a still larger proportion of the salaried classes desire some income from property. The point which is commonly overlooked, however, is that the wealthy property owners consume but a small fraction of their total income. The rest of it is invested in industry, thus equipping each worker better and making him more effective. As a result, the products of industry grow more abundant and cheaper and the purchasing power of the laborer's wage is thereby increased. Thus, the income which the property owner invests this year increases the well-being of the laboring classes of next year. If this share of the national dividend now saved and invested by the wealthy were instead paid directly to the laboring classes as wages, the chances are that most of it would be used for current needs, but little being saved. As a result, the laborers of today would gain, but the laborers of the future would receive reduced incomes because of the change.

"Large property owners, while not usually wage-earners, are frequently, nevertheless, because of their organizing and managerial ability, among the most effective laborers in the industrial world. A considerable reward

is necessary in order to induce them to exert their best efforts and thus to maintain productive efficiency. It appears, therefore, that the only additional fraction of the national dividend which could be safely turned over to labor for current wages is that part used by the rich in the purchase of needless luxuries. While this is an immense sum in the aggregate, it is still not large enough materially to enhance the average wage rate.

"The ordinary wage-earners of Russia have made the most vigorous effort in recent history to profit by the confiscation of the property of the well-to-do and wealthy classes. The resulting paralysis of industry, with the dire poverty and even starvation resulting for those very working classes that the confiscation was intended to benefit, are facts too well known to require elaboration. It is clear that the workingman cannot with safety destroy the equipment both tangible and intangible which aids him in production, and that, without the organizing ability of the captains of industry and the savings of the propertied classes, the equipment needed for production is hopelessly inadequate."

Foreign Trade and Exchange.

Sterling exchange has had a heavy decline during the month of August, and all the European exchanges were carried down by the movement. The table is as follows:

	Unit Value	Rate in cents July 26	Rate in cents Aug. 26	Change from par	Depreciation
Canada	1.00	.88	.8887	.1113	11.13
Germany	.2382	.0245	.0210	.2172	91.18
Italy	.1930	.0555	.0467	.1463	75.80
Belgium	.1930	.0824	.0755	.1175	60.88
France	.1930	.0775	.0706	.1224	63.42
England	4.8665	3.7950	3.59	1.2765	26.23
Switzerland..	.1930	.1718	.1655	.0275	14.25
Holland	.4020	.3450	.3175	.0845	21.02
Denmark	.2680	.1620	.1420	.1260	47.01
Norway	.2680	.1625	.1420	.1260	47.01
Sweden	.2680	.2155	.2030	.0650	24.25
Spain	.1930	.1567	.1512	.0418	21.66
Argentine ...	.9648	.8875	.8475	.1173	12.16
Japan	.4985	.5150	.5150	.0165	*3.310

* Premium.

The most important developments of the month touching the exchange situation have been the arrival of the French Commissioner with authority to make arrangements for the payment of the French portion of the Anglo-French loan, together with the arrival of a shipment of gold from Paris, to apply thereon, and the announcement from Buenos Aires that the Argentine government will resume the sale of drafts against its remaining credit in New York, understood to be about $23,000,000, to meet the requirements for exchange on this country. The negotiations of the French Commissioner include the making of a loan, probably for $100,000,000, the terms of which are not yet determined. It is understood that gold shipments will amount to about $50,000,000 and that exchange for the remainder due on the Anglo-French loan has been acquired.

It is explained at Buenos Aires that the action of the Argentine government in discontinuing the sale of drafts on its credit in New York was due to its unwillingness to facilitate arbitrage transactions, which had been carried on. It will take steps to prevent the use of its accommodations in this manner.

The movement of gold from this country to Japan continues on a considerable scale, and silver shipments to Asia have been resumed in moderate amounts. The price of foreign silver is now fluctuating about $1.00 per ounce, the price at which the United States government is buying domestic silver.

Peruvian bankers have taken several million dollars in gold of late to strengthen reserves in that country.

Railroad Congestion.

Some idea of the cost to the public of the state of congestion upon the railroads which has been common throughout the last six months may be gathered from this incident, reported by the People's National Bank of Pittsburg:

A manufacturer in this district of high-grade steel products, which are usually shipped in box cars, was forced to the expedient of using lumber and tarred paper for constructing a rude protection over flat cars (the only kind at times available during the past month) for making shipments to urgent consumers whose operations otherwise would have been suspended. At the current cost of lumber and labor this manufacturer estimated the additional expense at $50 or more per car thus protected. The cost was divided between buyer and seller, and ultimately absorbed by the consumer of the finished product. Not alone was the cost of the commodity increased, but at this time when labor is scarce a portion of the available supply was utilized in the manner described when otherwise it might have been more advantageously employed for the general benefit. In other words, the carpenters, laborers and materials employed in building the temporary protective covering for flat cars might have been employed in work of a more permanent character for the relief of the dwelling-house shortage which remains acute in all industrial districts.

Here is another illustration which may be duplicated in a greater or lesser degree in the experience of various manufacturers: At one time during the month just closed a local steel company had nearly a hundred carloads of high grade finished material piled up on its warehouse and shop floors awaiting shipment for which it could not obtain box cars. Being unable to invoice the goods, the capital cost of the merchandise, instead of being distributed among many consignees, had to be borne by the producer for a longer period than could have been foreseen when orders were booked. The twofold effect was to reduce the maker's profits and add to his costs the additional financial credits required to carry the burden until delivery was possible.

Expenditures of this kind are commended to the attention of the persons who think that the increase of freight charges will add to the existing high prices. Other things being the same, an increase of freight charges tends to raise the general level of prices, but good railroad service is cheaper than poor railroad service.

The Labor Issue.

Recent decisions by a United States Court and the Supreme Court of the State of New York have again stated very plainly the obligation of a common carrier to serve all people without discrimination. In the latest case the question was whether transportation agencies might discriminate against goods upon which union labor had declared a boycott, and the courts held not

only that the transportation company must not discriminate, but that the unions must not attempt to coerce the transportation companies to violate the law.

Lumber dealers in Brooklyn against whom a strike had been declared employed non-union workmen, at which the unionized truck-drivers refused to handle lumber from the said company. Non-union truckdrivers were obtained, and lumber delivered at the piers of a steamship company, for overseas shipment, whereupon the unionized employes of this company threatened to strike if the lumber was received, and the steamship officials yielded, thus denying transportation facilities to the boycotted lumber.

Complaint was entered against the steamship company and the striking unions, alleging that as a common carrier the shipping company was obliged to accept freight from the public without discrimination. The case came before Judge Fawcett of the New York Supreme Court, who sustained the complaint. He said, in part:

"The papers show that all of the parties are engaged in a combination having for its object the exclusion of plaintiff's goods from transportation by the defendant common carriers, both where plaintiff is a shipper and where its customers act as shippers. If this combination is lawful it is impossible to truck in New York and vicinity except on such terms as the unions permit. The defendants are engaged in a combination to gain control of transportation and blockade the channels of trade against all but union goods. Such a combination to exclude open shop merchandise from the channels of trade and the markets of the nation is a conspiracy against public welfare and deprives the public of their sovereign right of choice to purchase what they see fit.

"The representatives of the companies who decline to furnish services are violating the law, and the employers where strikes are threatened to compel them to violate the law are engaged in an illegal combination. The carriers have aided and encouraged the unions by seeking to evade their duties to handle plaintiff's goods without discrimination.

"While a man may enter any vocation he chooses, yet if he selects a field indissolubly linked with the rights of the public, such as a common carrier, he must subserve his own rights to that of the public welfare.

"The combination violates the United States Shipping act and Section 5440 of the Revised Statutes. Under these statutes a refusal of the carriers to transport the plaintiff's merchandise is a crime, and the unions are engaged in an unlawful conspiracy when they induce, aid or abet the carriers in committing the same, and it is no excuse to the carriers that the employees threaten to strike."

This is a clear statement of sound principles. It makes no attack on labor organizations but defines the limit beyond which no organization, whether of wage-earners or employers, may go. The stand taken is for the protection of society against discrimination in the service of transportation, upon any excuse, and places the right of the public to have transportation above the right of strikers to coerce the transportation company.

The interests of the wage-earning class are not in conflict with the interests of the general public. The wage-earners are interested first of all in an orderly state of society, in which industry can be carried on. The interests of labor never can be advanced by methods which would involve the community in constant turmoil, or put it in the power of small groups outside of all authority to say who shall have transportation service and who must go without it. There is no liberty or security in society unless secured by law, and the struggle of all the ages has been to make men equal before the law.

There is no labor "issue" unless the unions seek to place the authority of their organizations above the law of the land. They have their rights and their place in the social organization, but they have not yet supplanted the constitutional law-making bodies.

The desire to rule by force, to disregard the rights of others, is a sign that those who hold it are not qualified to exercise unrestrained power. In a free society, based upon one vote for every person and majority rule, all who seek to exercise power by fraud or force are enemies of the public peace. The law, made and enforced through the constitutional agencies, should be respected and obeyed. Otherwise democracy is abandoned and society goes back to the rule of the strongest.

The British Labor Threat.

In Great Britain organized labor recently issued a pronouncement that in case the British government made war upon the Soviet government of Russia, a general strike would be called in Great Britain. The British government has indicated no purpose to make war on the Soviet government, unless, possibly, in defense of the independence of Poland. Obviously, it is a grave question how the interests of England and of the whole world might be affected if Russia should overrun Poland and establish an alliance with Germany. But whatever the policy of the Parliamentary government may be it is the government lawfully elected by the people of the British nation. The laws provide an orderly method by which the Parliament is made responsive to the public will, but this declaration amounts to an attempt by the labor organizations to impose their will upon the country without an election. It is an attempt to transfer the government of the nation from the Parliament to the labor organizations.

It is impossible to see how the intelligent members of organized labor can wish to raise an issue of this kind. They must know that it is foredoomed to failure. They can throw society into disorder, but labor can gain nothing from mere disorder, and order never can be re-established upon any other basis than that of equal rights. The world has progressed too far to abandon that principle. The labor leaders who are making this attempt to seize authority are about 500 years behind the times. They have just reached the stage of the early champions of religious liberty, who wanted it for themselves but were unwilling to allow it to any who disagreed with them.

The Bond Market.

The month of August is usually the dullest bond month in the year, and the past month has run true to form, although prices generally have been firm and in some departments a strong undertone has developed which would seem to indicate an improving bond market during the Fall. Very few new issues were offered, but they met with success. The dealers of the country have apparently taken advantage of the absence of new issues, and have cleaned up their odd lots. It is interesting to compare the yields obtainable from bond investments over a period of years, for at the present time securities are the cheapest commodity on the market. In 1903 the yield from Municipals was 3.31, Rails 4.10, Utilities 4.63, Industrials 5.69. In 1910 Municipals 4.00, Rails 4.21, Utilities 4.79, Industrials 5.25. In 1920 Municipals 5.07, Rails 6.88, Utilities 7.51, Industrials 7.56. Investors are naturally asking their bankers whether the present is the time to make purchases or whether prices are going lower. The ready absorption of new issues at present levels during the past summer seems to indicate that the general public has come to the conclusion that if prices are not at their low level, securities nevertheless are an attractive purchase. The trend of sentiment seems to favor longer term securities, and the discerning investor today is endeavoring to obtain a high yield over a long period of years, with the result that seasoned issues with a life of twenty years or more, have been removed from the market in substantial blocks.

Foreign Government issues were slightly irregular during the month as a result of the Polish situation. There have been rumors of negotiations with foreign governments and the most imminent business is probably a new French loan.

Government and Municipal Bonds.

The Government bond market was fairly active throughout the month, with minor fluctuations. For the most part the Liberty issues were heavy after the opening of the month. The New York Stock Exchange has increased the commissions on Liberty bonds and Victory notes to 1/16 of 1%. The majority of the investment bankers, however, are still charging ⅛ of 1%, as this has been decided as the minimum amount which will cover expenses, particularly on out of town transactions where shipping charges are involved. Stock Exchange commissions on other standard issues have been increased from $12.50 per $10,000 to $15.00.

A new issue of $10,000,000 Philippine Government One-Year 4% Certificates were sold during the month to a syndicate of New York bankers and were offered to the public at 97⅜ and interest, to yield 6¾%.

The municipal market continued active with many new offerings. It is reported that during the first seven months of this year new municipal issues were offered to an amount of $412,324,450 compared with $384,537,802 during the same period last year. Investors seem to favor the longer term issues and prices have accordingly advanced to a point where the yields of the better known cities are averaging about 5% to 5.25% compared with 5.25% to 5.50% last month. The larger municipal issues of the month include:

$8,473,000	Detroit 5% & 6% bonds yielding from 5.25% to 6%.
3,880,000	City of Syracuse, N. Y., 5¼% Cpn., bonds yielding from 5% to 5.90%.
3,674,000	Jersey City 5½%-6%, yielding from 5.25% to 5.85%.
2,580,000	Cincinnati 6% bonds yielding 5⅝%.
2,475,000	Dallas 5% bonds yielding 5½% and 6%.
1,165,000	Cincinnati 6% bonds yielding from 5.30% to 5.35%.
1,500,000	Oregon 4½% bonds yielding 5.25% to 5.65%.

New York bankers offered a block of $888,000 City of New York 4¼% bonds at 83½ and interest, yielding 5.20%.

The following Canadian issues were offered:

$5,000,000	Province of Ontario 6% bonds to yield 6.23%.
3,000,000	Province of British Columbia 6% bonds to yield 7¾%.
2,000,000	Province of Alberta 6% bonds at prices to yield 7.50%.
1,200,000	Province of Manitoba 6% bonds to yield 7¾%.
600,000	City of Winnipeg 6% bonds to yield 6¼%.
500,000	Province of Nova Scotia 6% bonds to yield 7.35%.

Corporate Issues.

The month opened with the decision of the Interstate Commerce Commission granting substantial increases in freight and passenger rates. On the morning after the announcement, the Stock Exchange witnessed a rather excited market in railroad stock and semi-speculative railroad bonds which, however, was short lived. Throughout the balance of the month the bond market continued dull until the offering of $25,000,000 New York Central Ten-Year 7% Secured bonds at 100 and interest. The subscription books were open a day and a half and the issue was largely over-subscribed and has since enjoyed an active market on the Curb. Toward the close of the month a strong inquiry developed for semi-speculative and second-grade rails, with the result that advances in some of the more popular issues were from two to six points.

The following week a group of Chicago bankers offered $15,000,000 Morris & Company Ten-Year 7½% bonds at 98¼ and interest, to yield 7¾%. The books were open one day and the issue was over-subscribed.

Public utilities as a class have maintained a fair market during the month, the longer term, seasoned issues being in particular demand.